

# Are we really serious about the Community Housing Sector?



# A Proposal to increase funding to the Community Housing Sector

## Purpose of Paper

1. This paper makes the case to Government, and other political parties, of the necessity to increase the overall supply of social housing, and to achieve this by supporting the growth of the community-housing sector (often called the third sector). The paper also argues the case for a new revenue subsidy to be introduced to create a level playing field between the community-housing sector and state housing. The Trust sees an increase in the scale of supply-side initiatives, including increasing the size of the community housing sector, as the most critical policy interventions needed to address issues of housing affordability and the increasing inability of state housing alone to meet present levels of housing need for those with the greatest housing needs.

## Executive Summary

2. Housing affordability is increasingly recognised as a major problem facing New Zealand. This does not just affect homeowners but also affects renters. The people who are affected the most are those already at the bottom of the housing market, low income earners and those on benefits. People facing other disadvantages, such as disability, mental health issues and other forms of social exclusion are the worst affected. There are increasing levels of housing need that state housing alone cannot or is not best placed to meet. The problems of housing affordability and unmet housing needs have impacts on all other social outcomes, including health, education and social wellbeing.
3. If Government, and other political parties, take these issues seriously they need to substantially increase investment in social housing and increase the mix of social housing providers by supporting the growth of the community-housing sector. The Wellington Housing Trust believes that the most effective ways of helping the sector to grow are by:
  - Increasing overall levels of funding to the community-housing sector, in addition to supporting Housing New Zealand Corporation (HNZC), thereby increasing the mix of social housing provision in New Zealand
  - By introducing a new revenue subsidy to community-housing providers to create a level playing field by putting state housing and the community-housing sector on an equal funding framework
  - By reviewing the current Housing Innovation Fund (HIF) regime and removing some of the barriers faced by community-housing providers due to the current HIF structure. This would enable them to raise additional finance from private lenders
  - Be more strategic in supporting the growth of the sector by backing existing well established providers and targeting resources to meet agreed priorities
  - Be more creative in exploring other interventions to produce affordable housing such as inclusionary zoning, community land trusts etc.

4. This paper focuses primarily on the proposal to introduce a new revenue subsidy regime to assist community-housing providers.
5. Based on current figures available to the Trust we estimate that the proposal to introduce such a scheme for the community-housing sector would cost the Crown an additional \$5 million per annum, but would result in an increase in the supply and mix of social housing and improved housing outcomes, helping the Government to meet its housing policy objectives.
6. At present the Trust believes that there is a large gap between the Government's policy promises, as signalled by the New Zealand Housing Strategy and other documents, and the reality of what is being delivered by HNZC. The community-housing sector can only grow sufficiently to meet the growing housing needs of New Zealand if commensurate resources are applied to this task. The Trust also believes that the current funding of social housing is inequitable as state housing receives sizeable additional subsidies, at present unavailable to other social housing providers.
7. The Trust also advocates that the roles of housing policy advisor to Government and funder of non-government social housing should be removed from HNZC, leaving the Corporation to concentrate on its core landlord and developer functions. We believe the present arrangement creates a conflict of interest in roles, and leads to the delivery of biased policy advice. A new body should be established as the primary funder of all social housing, along the lines of the Housing Corporation in the UK or the Housing Finance Corporation model found in Canada, Ireland and some States of the US. The policy function should sit in a central government department, logically the Department of Building and Housing.

### **The Wellington Housing Trust**

8. The Wellington Housing Trust is a charitable trust providing social housing in Wellington City. It has been providing affordable housing to low and moderate-income families and individuals in Wellington since 1981. The Trust currently has 26 rental units and accommodates a diverse range of people, meeting many needs, and rents its properties at 70% of the market rent. The Trust is governed by a board of voluntary Trustees, but also has a wider membership. Anyone who supports the Trust's objectives can become a member of the Trust. The Trust employs a coordinator and contracts out its property management to IHC NZ Inc.

### **The Problem – Housing Affordability and Growth in Demand for Social Housing**

9. Housing affordability is increasingly recognised as a major issue for New Zealand. Whilst it is not an issue that is confined to New Zealand it is having a major impact on the lives of many New Zealanders. Affordability typically becomes a concern when the housing costs of households in the lower 40% of the income distribution exceed 25% to 30% of their income.

10. Housing affordability does not just affect homeowners. While the impact upon private tenants has varied regionally, on the whole rent increases have exceeded incomes (but lagged behind increases in house prices). While recent adjustments to the Accommodation Supplement have helped to ameliorate these rent increases for those that qualify, the number of recipients who spent more than 50% of their income on housing rose from 13,900 in June 2005 to 17,500 in June 2006.
11. Whilst housing affordability affects many New Zealanders it is those on low incomes and benefits, and at the bottom of the housing market, who are affected the most. They are squeezed out of home ownership into the lowest end of the rental market, often into housing which is in a poor condition, overcrowded or that does not meet their needs. This is often in areas with high concentrations of renters, transient populations and little social cohesion. This affects all aspects of their lives, from their health to their children's schooling. Sub-standard and insecure housing only adds to people's problems, further compounding social exclusion.
12. The scale of the problem is also placing increasing pressure on state housing. Increasingly HNZA can only meet the most extreme needs, only housing A & B applicants; those in the most severe and urgent housing need. Increasingly the focus for HNZA's investment programme is on the Auckland area, where this need is greatest in numerical terms. This means that people in other areas and with lesser housing need are unlikely to be assisted by HNZA. This does not address the fact that these groups are still experiencing housing stress which can have long term impacts on their health and their family's wellbeing.

### **The Solution – Increase the Supply and Mix of Social Housing**

13. The Wellington Housing Trust believes that the only effective way to meet these unmet housing needs is a growth in supply-side interventions, including increasing the size and diversity of the social housing sector in New Zealand. The Trust believes that Government should increase the supply of community-housing in addition to state housing because the sector:
  - Complements and adds value to HNZA as well as giving social housing customers greater choice
  - Is better able to meet special needs and the needs of specific communities including Maori
  - Is able to be more innovative and develop flexible housing solutions
  - Has greater flexibility in responding to the needs of particular communities
  - And, is able to leverage additional resources to match government subsidy including capital, land, volunteer time, community and business input etc.

14. However, to be able to grow sufficiently to meet growing housing needs, the community-housing sector needs to be able to expand the scale of its operations in order to attain the critical mass necessary to achieve economies of scale and greater cost effectiveness. If this is to happen additional funding is required. Increased levels of funding would enable community-housing organisations to expand their stock by building, purchasing or leasing properties from private owners. With changes in the current funding mechanisms the sector could begin to borrow funds from mainstream lenders as they do in the UK, thus providing more cost effective housing meeting a wider range of needs and making the Crown's dollar stretch further.

## **The Case for Growing the Community Housing Sector**

### ***Improved Housing Outcomes Resulting from a Mix of Social Housing***

15. Owing to wider social changes, New Zealand's population consists of increasingly diverse communities. These communities have diverse housing needs, in some cases requiring housing assistance outside the experience of HNZA and local authorities. This includes a growth in the need for housing for groups with complex needs, such as mental health consumers, women fleeing family violence, people with addiction problems and in many cases people with a mixture of all these issues. State housing is not geared to provide such specialised supported housing and recognises that it has an inability to deal with such groups as effectively as specialist community based providers.
16. Community-housing organisations can also provide a wider range of types and tenures of social housing assisting in building mixed communities. They can offer a mix of shared equity and home-ownership products, general needs rental housing and specialised supported housing, thus contributing to the creation of more balanced and sustainable communities.
17. Community-housing has the potential to offer improved social and economic benefits including the pooling of government, community and private sector resources and expertise and the growth of social capital in communities through the involvement of community members in the development and delivery of local housing solutions. The sector can also leverage private sector investment using government funding, thus improving the cost effectiveness of social housing.
18. Under the principles of the Treaty of Waitangi, Maori are seeking self-determination in meeting the housing needs of their hapu and whanau and partnerships with such groups has the potential to improve housing outcomes for Maori.
19. In its role as complementing state housing, a strong and well-developed community-housing sector would also contribute to reducing waiting list pressure for state housing, by enabling applicants to be referred to community-housing providers for assistance.

## **Barriers to the Growth of the Sector**

### ***Supporting Government Policies:***

#### **FAMILIES – YOUNG AND OLD**

20. The Government has identified improving the affordability and quality of housing as a priority issue for the Families – young and old theme. The community housing sector plays a role in supporting this theme by providing affordable housing to people in need. It also contributes to outcomes that strengthen families, support healthy confident children, safe communities, better health for all and positive ageing.<sup>1</sup>

#### **THE NEW ZEALAND HOUSING STRATEGY**

21. The Government's housing objectives are set out in the vision statement of the New Zealand Housing Strategy (the Housing Strategy) that... "All New Zealanders have access to affordable, sustainable, good quality housing appropriate to their needs." Area 2 of the Housing Strategy's programme of action supports the growth of the community housing sector. The Government recognises that state tenancies and the AS alone cannot meet the increasingly diverse needs of lower income households. The Strategy goes on to say that the short term priority will be to support the expansion of social housing through the Housing Innovation Fund and the Local Government Fund, which provide assistance to community-based and local government housing providers.

#### **HOUSING NEW ZEALAND CORPORATION'S STATEMENT OF INTENT**

22. HNZC's Statement of Intent (SOI) 2206-07 also gives a mandate for diversifying social housing provision and supporting the growth of a community housing sector. Strategic Priority Four in the SOI is to "support community-based social housing initiatives". It goes on to describe the impact if addressed as "A stronger social housing sector and involved communities that have the capability to provide appropriate local housing solutions. This priority focuses on strengthening the capability of social housing providers, and supporting local government, community-based organisations and iwi to provide social housing and other community initiatives."<sup>2</sup>

#### **THE MISMATCH BETWEEN POLICY AND STRATEGIC STATEMENTS AND THE FUNDING PROVIDED**

23. Whilst the Housing Strategy and Government housing policy calls for an increase in the size and capacity of the community-housing sector, these policies are not supported by realistic programmes of sufficient size to make a real difference. If the Government really wants to see the sector grow it needs to invest realistic amounts of money to achieve these aims. At present there are a number of major barriers preventing this growth from becoming a reality.

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<sup>1</sup> HNZC, Statement of Intent 2006-07

<sup>2</sup> HNZC, Statement of Intent 2006-07

#### THE MISMATCH IN THE SCALE OF FUNDING

24. At present the scale of funding on offer to “grow” the community-housing sector is miniscule in relation to that given to fund state housing. If the Government is serious in its policy intention of growing the sector then the scale of funding must be greatly increased. The major barrier to the sector growing is not just capacity, as often stated by housing officials, but the size of the funding available to it.
25. In Budget 2007 the total appropriations for the community housing sector via the Housing Innovation Fund (HIF) is \$12 million in capital and \$3.654 million in operating costs for 2008/09. It should be noted that this figure includes funding for both community-based housing and local government housing. This figure comprises 0.75% of the total budget for direct housing assistance in the 2007 Budget<sup>3</sup>. In comparison HNZC will receive \$48.030 million to finance acquisitions (39% of the budget spent on direct housing provision) and \$465.380 million subsidy to enable it to charge Income-Related Rents. This revenue subsidy accounted for 55% of the Corporation’s forecast income from rents in 2006/07<sup>4</sup>.
26. At present the only financial support available from the Crown for community-housing providers is through the Housing Innovation Fund. This is a capital subsidy consisting of a mixture of 10 year interest free loans, suspensory loans and conditional grants. In addition tenants can claim Accommodation Supplement. Although there is nothing to prevent a provider charging rents below the market level this can only be sustained if the organisation can break even at the rent levels charged and there are no revenue subsidies available from the Crown to support this.
27. There is some revenue funding available from other Government agencies and District Health Boards, but this generally covers the cost of providing support, care and social services rather than tenancy and asset management, the core activities of social landlords. There is a great deal of ambiguity around this funding, however, and the Trust believes that Government should carry out a policy review of the various funding streams available to housing agencies. This review should also consider the funding of supported housing that is not covered by existing contracts, creating a transparent framework for housing funding. This issue is outside the scope of this paper.
28. At present community-housing providers receive 0% subsidy towards their operating costs – yet provide social rentals. If HNZC cannot be sustainable without a 55% subsidy to offset its operating costs it seems unreasonable for Government to expect that community-housing providers can remain sustainable with no subsidy.

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<sup>3</sup> Vote Housing 2007

<sup>4</sup> Ibid p78

29. As demonstrated above HNZC gets the lion's share of housing spending, and, at \$12 million per annum divided between councils and the community-housing sector, the scale of the HIF allocation is minute compared to the appropriation granted to HNZC. This scale of funding is insufficient to generate any significant increases in the size of community-housing sector. As the Corporation's SOI points out, Local Authorities and community-based organisations manage one-fifth of New Zealand's social housing. Even if government funding was proportionate to the scale of the sector it would be substantially larger than the present fund.
30. It is worth noting that the current HIF programme is already over subscribed by at least three times. In addition the current mechanism whereby the Minister decides annually the split in allocation between Community Groups and Councils leads to further uncertainty for the community sector.

#### AN UNEQUAL PLAYING FIELD – DIFFERENT SUBSIDY REGIMES

31. These figures not only demonstrate the stark differences in the scale of funding but also highlight the inequitable funding regime between state housing and the community-housing sector.
32. Unlike community-housing providers, under current policy settings HNZC receives both a capital subsidy; the appropriation for its Acquisitions and Development programme, and a revenue subsidy from the Crown. This allows it to charge Income-Related Rents and still cover its operating costs.
33. The policy rationale for paying a revenue subsidy to HNZC is that the Corporation assists the Crown to *give effect to the Crown's social objectives by providing housing, and services related to housing.*<sup>5</sup> The Corporation does this by allocating its housing to those in most need through the Social Allocation System (SAS), and by charging an affordable, sub-market Income-Related Rent.
34. The Trust would argue that other social housing providers can also be said to be giving effect to the Crown's social objectives, and this is reflected in the increasing role that the sector is seen as having in meeting housing needs for particular communities, diverse needs groups, Maori and other groups as described in the Housing Strategy (See above).
35. Extending revenue subsidy to social housing providers would place them on an equitable footing with the Corporation. It would also take social housing tenants out of the Accommodation Supplement (AS) regime, offering up some savings to the Crown. Such a scheme could be expanded to include local authorities. This would have the added benefit of providing an incentive for local authorities to retain a role as direct providers of social housing, thus mitigating the growing risk of them exiting from social housing.

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<sup>5</sup> Section 3B of the Housing Corporation Act 1974 (as amended by the Housing Corporation Amendment Act 2001)



36. To meet the Crown's social objectives the Corporation uses the SAS, a mechanism to allocate housing equitably on the basis of housing need. If a revenue subsidy was awarded to other social housing providers they would also need to demonstrate that they met the Crown's social objectives.
37. One way of doing this would be for them to operate a transparent and equitable allocation system. This however, would not need to be identical to the Corporation's SAS, as there is no statutory link between the Crown's revenue subsidy to the Corporation and the use of the SAS in its present form. Social housing providers may instead weight factors differently to reflect the specific needs of the target group that they cater for.
38. An issue often raised by state housing officials is that providing a revenue subsidy to providers who already receive a capital subsidy (in the form of HIF loans) is inequitable, and could be seen as "double dipping". As previously shown, under current policy settings the Corporation receives both capital subsidy, in the form of an annual appropriation and a revenue subsidy in the form of a payment from the Crown, so to apply this setting to the Community Housing sector would be simply creating a more level playing field, enabling the sector to assist the Corporation in meeting diverse housing needs. Other barriers to the sector's growth include:

#### **COST OF LAND AND DEVELOPMENT**

39. Community housing providers face the same issues as other developers with regard to land price inflation, unless they are lucky enough to be the recipients of land that is gifted. They are also subject to the same costs and difficulties in developing properties once land is secured. These additional costs inevitably have an impact on the level of rents that need to be charged in order to cover the group's costs. Once management and maintenance costs are added onto the cost of development and the cost of finance this can make rents unaffordable to the sector's target groups, defeating the point of social housing.

#### **CONDITIONS OF THE HOUSING INNOVATION FUND**

40. The way that the current HIF programme currently operates actually creates barriers to the sector being able to attract additional funding, thus inhibiting its growth. The HIF funding is a combination of low interest and suspensory loans and conditional grants. The current loan conditions mean that HNZC has the priority on the loan, acting as an impediment to borrowing from private sector lenders to provide matched funding. Thus the current system forces community-housing providers to rely on charitable funding rather than commercial loans. Also In some cases, including the Trust's, HNZC uses the organisation's wider property assets as security on a new development, thus preventing the group from using these assets to fund future schemes outside of the HIF programme.

## **The Trust’s Proposal – Increase Investment in the Community-Housing Sector and Introduce a Revenue Subsidy Regime**

41. The Trust would argue that in order to bridge the growing gap between demand for social housing and its supply, the Government must increase the levels of capital subsidy available to the community-housing sector and establish a revenue subsidy scheme. This would allow community-housing providers to be able to achieve real growth and still charge their tenants a sub-market or “income-related rent”. This arrangement would be similar to the subsidy arrangement between the Crown and the Corporation.
42. In order to maximise the sector’s chance of contributing to the Government’s vision for housing, the Trust argues that it should be put on an equal footing to HNZC, and be able to receive a rent subsidy, enabling it to charge affordable, “income-related rents”, and yet still deliver good quality housing to a high standard of service.

## **Implementation Issues and Potential Cost of Proposal**

43. The proposed scheme would work in a way very similar to the current IRR subsidy regime enjoyed by HNZC. The community-housing organisation would assess a tenant’s income and charge an “income-related rent” based on a percentage of their income. This would be reviewed annually, or if there were a change in circumstance, and rents would be adjusted accordingly. The provider would then apply for a subsidy based on the difference between the actual operating costs minus the actual rent received. If this resulted in a deficit the organisation would receive a subsidy to meet the shortfall. This scheme would only cover the normal operating costs of a landlord (including tenancy management, maintenance and the cost of finance), and is not intended to cover additional costs of providing support or care to tenants. It should be noted, however, that social housing often requires more intensive tenancy management than other forms of rental housing.
44. Alternatively the subsidy could be based on the difference between a potential income received using a notional market rent, minus the actual “income-related rent” received. This is how the Corporation’s subsidy is assessed. Potentially this new scheme would be more transparent than the current arrangement as the current subsidy to HNZC is based on the gap between a “notional” market rent and the actual rent received, rather than the actual running costs versus actual rent received as is being proposed.
45. To introduce a revenue subsidy scheme for community-housing organisations and local authorities the Housing Restructuring and Tenancy Matters Act 1992, the primary legislation covering the administration of Income-Related Rents for HNZC, would need amending to broaden it to include other social housing landlords. It is the Trust’s understanding that the Government is considering reviewing this Act in the near future, so this would be a good opportunity to broaden its scope.

#### **POTENTIAL COST OF SUCH A SCHEME TO THE CROWN**

46. The Trust estimates the cost to the Crown of introducing a revenue subsidy to all existing community-housing providers, is an additional \$5 million per annum. This figure includes savings resulting from tenants no longer accessing any AS. This figure will increase if the sector grows by an estimated \$312,500 per additional 100 units built<sup>6</sup>. This figure is arrived at using up-to-date figures obtained from HNZC relating to the size of the community-housing sector, which estimates the size of the community-housing sector to be around 1600 units. The scheme would cost around \$80,000 per annum to support the Wellington Housing Trust at its present size.

#### **CONDITIONS OF THE SCHEME – REGULATION AND COMPLIANCE**

47. The Trust recognises that such a subsidy arrangement would require performance standards to be set to ensure that the housing provided was of a good standard and was well managed. Ongoing monitoring and regulation by the Crown would be necessary to ensure that these standards were being adhered to.
48. In order to reduce the cost to the Crown and prevent organisations accessing subsidy when they do not need it, criteria could be developed to ensure an equitable distribution of subsidy based on true costs, accompanied by a regulatory and monitoring framework to ensure compliance. It is recognised that this would add additional compliance costs to any subsidy regime, but it is felt that this can be justified in terms of ensuring the quality of housing provision and raising standards in the sector.

#### **BENEFITS OF THIS PROPOSAL – IMPROVED HOUSING AND SOCIAL OUTCOMES**

49. The result of increasing the scale of the Community Housing sector would be a net increase in the level of housing assistance available, at less cost to the Crown, owing to the sector's ability to attract additional philanthropic and private sector investment.
50. It would also result in improved housing outcomes for groups most disadvantaged in the housing market. This would have flow-on benefits in improving a range of other social outcomes, including education, health and social cohesion, thus contributing to the Government's wider social development goals.
51. This proposal would enable community-housing providers to increase the size of their portfolios in a number of ways. It would ensure that the cost of running a social housing business; management, maintenance, property improvements and the cost of finance, could all be covered. It would also give organisations the option to lease existing homes from private landlords, where sufficient land is not available or where land prices are too high. This is a strategy increasingly used by HNZC, especially in the Auckland region.

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<sup>6</sup> This is a high level estimate and would need additional modelling to arrive at a more reliable figure

## Recommendations

1. That the Minister of Housing considers introducing a new revenue subsidy regime to community-housing and local authority housing providers, enabling them to charge income-related rents to their tenants
2. That the Minister of Housing support a Budget Bid in 2008/09 for a dramatically increased appropriation to support the growth of the community-housing sector in New Zealand, in accordance with current Government policy and the New Zealand Housing Strategy
3. That the Minister of Housing instructs officials to review the current Housing Innovation Fund programme to review whether it is the most effective means of supporting the growth of the community-housing sector, and to ensure that it is not inhibiting the sector leveraging other sources of finance

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Community Housing Aotearoa, Inc.  
*Nga Wharerau o Aotearoa*

19<sup>th</sup> September 2007

**To Whom It May Concern:**

CHAI is the national umbrella organisation for the not-for-profit community housing sector. We promote and advocate for community housing at the local and national level. Our vision is to expand and strengthen the community housing sector, to give all New Zealanders a broader choice of quality, affordable and secure housing options.

CHAI now represents over 140 membership organisations including churches, non-profit community groups, Maori and Pacific Island housing providers and others. The Wellington Housing Trust is one of our members.

CHAI endorses the Trust's report on funding for community housing organisations "Are We Really Serious About a Community Housing Sector?" and fully supports the recommendations in this proposal. We believe that Government should increase the supply of community-housing because the sector:

- Complements and adds value to HNZC as well as giving social housing customers greater choice
- Is better able to meet special needs and the needs of specific communities including Maori
- Is able to be more innovative and develop flexible housing solutions
- Has greater flexibility in responding to the needs of particular communities
- And, is able to leverage additional resources to match government subsidy including capital, land, volunteer time, community and business input etc.

CHAI also supports the position that for the community-housing sector to grow sufficiently to meet growing housing need in New Zealand commensurate resources need to be applied to the task. CHAI also agrees that the current funding of social housing is inequitable, as state housing receives a disproportionate share of government funding and additional subsidies than the community housing sector.

We hope that the findings contained in this report will be considered carefully and that the government considers acting on the recommendations.

Yours faithfully

Thérèse Quinlivan  
Director Community Housing Aotearoa Inc